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# Keystone-Arthur Telephone Company

Federal Communications Commission  
Office of Secretary  
1-800-332-2826  
308-726-2281  
308-355-2391

Post Office Box 240  
Keystone, Nebraska 69144



August 21, 1996

EX PARTE OR LATE FILED

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

**RE: Ex Parte Notice, CC Docket No. 96-45**

Dear Mr. Caton:

On August 21, 1996, several local exchange carrier representatives met with Ken Moran of the Common Carrier Bureau. This visit was conducted by the undersigned and Bob Williams of Oregon Farmers Mutual Telephone in Oregon, Missouri.

The topic of the meeting centered around the points discussed in Attachment A, Rationale for using Weighted Dial Equipment Minutes for small LECs. An original and one copy of this ex parte notice are being filed. Please include a copy of this notice in the public record of these proceedings.

Respectfully submitted,

Jeffrey H. Smith  
Vice-President - Operations and Policy

Attachments  
CC: Ken Moran  
Bob Williams  
Porter Childers, USTA  
Bill Stern, NECA

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Small LEC FCC Ex Parte Meeting with Ken Moran  
Attachment A, Rationale for using Weighted Dial Equipment  
Minutes for small LECs

INSTITUTIONAL MEMORY REVIEW - WHY THE  
WEIGHTED DEM WAS BASED ON THE EVIDENCE IN THE  
RECORD

- FCC Common Carrier Bureau February 1996 paper - Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms @ pages 66-70 provides an excellent review of history
- Data in the record demonstrates that costs are indeed different for small rural carriers. One of the better compilations in the record in this regard is NECA's Discussion paper: "Interstate Traffic Sensitive Cost Recovery and DEM Weighting" (CC Docket No. 80-286 @ 10/10/95):
- This paper established that small study areas with less than 10,000 access lines have an average of over 2.7 times higher switching revenue requirement per MOU than study areas over 50,000 access lines
- Additional information correlating switching costs with office size is found in the fact that in 1992, the cost per line of a new digital switch with equal access and SS7 serving a median size NECA member (500 lines) is roughly 4.3 times greater than an average size Tier 1 office (10,000 lines)
- In terms of total universal service funding, the DEM amount is not significant (NECA calc. of \$330 million at 7/96-6/97).

- In terms of impact on NECA traffic sensitive rate, it is significant as it constitutes approximately  $\frac{1}{2}$  of the rate .
- In terms of individual company impacts on rural customers, it remains an important support mechanism.

IS DEM STILL APPROPRIATE IN THE CURRENT ENVIRONMENT? YES!!!

- Switching cost differentials still exist, and will continue to do so, in light of mandated competitive requirements (e.g., Local number portability)
- The Weighted DEM mechanism assists incumbent carriers continue to recover the embedded costs of providing universal service as part of their obligations as carriers of last resort
- Small LECs are more dependent on access charge revenue (reference Strategic Policy Research presentation at summer NARUC @ 7/23/96). Rural telephone companies obtain roughly 60 percent of revenue from access charges, as compared to 30 percent RBOC average.
- Payers are meeting their universal service obligations under the Act in sharing in costs of rural customers (Sec. 254 (d) states in part that “Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable and sufficient mechanisms established by the Commission to preserve and advance universal service.” )

- Prudent public policy dictates that telecommunications infrastructure must be maintained in rural areas to ensure the availability of services to all. Customers in rural areas should receive reasonable rates and parity in infrastructure and service offerings in order to meet the mandates of Section 254 of the Act and achieve the Commission's universal service goals.
- Universal service support for areas with high switching costs is essential to this end. DEM weighting assists achieve these universal service goals.
- If bulk billed, weighted DEM is an explicit support mechanism which meets the requirements of the Telecommunications Act of 1996 in that it would be specific, predictable and sufficient